

# HOUSE BILL REPORT

## HB 2818

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**As Reported by House Committee On:**  
Economic Development, Agriculture & Trade  
Finance

**Title:** An act relating to the state of Washington's economic, cultural, and educational standing in the motion picture industry.

**Brief Description:** Improving the state of Washington's economic, cultural, and educational standing in the motion picture industry.

**Sponsors:** Representatives McIntire, Kenney, McDermott, Hunter, Ormsby, Linville, Wood, Fromhold, Morrell, Conway, Condotta and Springer.

**Brief History:**

**Committee Activity:**

Economic Development, Agriculture & Trade: 1/24/06, 1/30/06 [DP];  
Finance: 2/6/06 [DPS].

**Brief Summary of Substitute Bill**

- Creates the Approved Motion Picture Competitiveness Program to revitalize the state's economic, cultural and educational standing in the national and international market of motion picture production.
- Authorizes a Business and Occupation tax credit for contributions to an Approved Motion Picture Competitiveness Program, up to \$1 million per taxpayer per year, subject to a state maximum of \$5 million in total credits.

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**HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, AGRICULTURE & TRADE**

**Majority Report:** Do pass. Signed by 22 members: Representatives Linville, Chair; Pettigrew, Vice Chair; Kristiansen, Ranking Minority Member; Skinner, Assistant Ranking Minority Member; Appleton, Bailey, Blake, Buri, Chase, Clibborn, Dunn, Grant, Haler, Holmquist, Kilmer, Kretz, Morrell, Newhouse, Quall, Strow, P. Sullivan and Wallace.

**Staff:** Tracey Taylor (786-7196).

**Background:**

Film and video production is a labor-intensive, high wage economic activity that responds well to a favorable business climate and does so with minimal impacts on infrastructure. In

2003, the Washington State Film Office (WSFO) commissioned a study of the economic impacts of film and video productions in Washington. The report concluded that film and video production support 8,033 jobs in the state, and the industry created over \$656 million in additional economic output.

The WSFO is located in the Department of Community, Trade, Economic Development (DCTED). The WSFO works with the Seattle Film Office and 35 film liaisons to assist with film and video location needs. Washington does provide several financial incentives for film and video production. These include: a state and local sales tax exemption on rental of production equipment; state and local sales tax exemptions on the purchase of production services; local and state rental tax exemptions for rental vehicles used in production activities; and sales tax exemption for hotel or motel stays exceeding 30 consecutive days.

#### Business and Occupation Tax

Washington's business and occupation (B&O) tax is the second largest tax source for the state. In Fiscal Year 2004, B&O tax collection totaled over \$2 billion which represented approximately 17 percent of state revenue sources within the State General Fund. Almost all businesses located or doing business in the state of Washington are subject to the state B&O tax, including corporations, partnerships, sole proprietors and nonprofit organizations.

Washington's B&O tax is calculated on gross income from business activities in the state. There are no deductions from the B&O tax for labor, materials, taxes or other costs of doing business. However, some businesses may qualify for certain exemptions, deductions or credits. Credits are amounts that have been paid to the Department of Revenue (DOR) which are either not due or are granted by the Legislature for a specific purpose. Credits are subtracted from the B&O tax and include the multiple activities tax credit, the high technology B&O tax credit, and the small business B&O tax credit

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#### **Summary of Bill:**

The Legislature recognizes the national and international competition in the motion picture production marketplace and is committed to leveling the competitive playing field by encouraging a partnership with the private sector to regain Washington's place as a premier destination to make motion pictures, television, and television commercials.

An Approved Motion Picture Competitiveness Program is created and will be administered by the DCTED. An Approved Motion Picture Competitiveness Program is a 501(c)(6) nonprofit organization with the sole purpose of revitalizing Washington's economic, cultural and educational standing in the national and international market of motion picture production by recommending and awarding financial assistance for costs associated with motion pictures in the state. For the purposes of this program, "motion picture" means a recorded audio-visual production intended for distribution to theaters, DVD, video, or the Internet. It also includes one or more episodes of a single television series or a commercial that exceeds \$250,000 in actual investment. "Motion picture" does not include one or more segments of a newscast or sporting event.

The DCTED must adopt criteria for an Approved Motion Picture Competitiveness Program. The rules adopted by the DCTED will allow the program, within the established criteria, to provide funding assistance when it captures economic opportunities for Washington communities and businesses and will only be provided under a contractual arrangement with a private entity. In establishing the criteria, the DCTED must consider: the additional income and tax revenue to be retained in the state for general purposes; the creation and retention of family wage jobs which provide health insurance and payments into a retirement plan; the impact of motion picture projects to maximize in-state labor and the use of in-state film production and post-production companies; the impact on local economies and the state's economy as a whole, including multiplier effects; the intangible impact on the state and local communities that comes with motion picture projects; the regional, national and international competitiveness of the motion picture filming industry; the revitalization of the state as a premier venue for motion picture production and national television commercial campaigns; partnerships with the private sector to bolster film production in the state and serve as educational and cultural purposes for its citizens; and the vitality of the state's motion picture industry as a necessary and critical factor to promote the state as a premier tourist and cultural destination.

The Washington Motion Picture Competitiveness Program will be administered by a board of directors (Board). Appointed by the Governor, the eight member Board shall consist of: one representative of the Washington motion picture industry; one representative of Washington's postproduction industry; two representatives of labor unions affiliated with Washington's motion picture production; one representative of Washington's Visitors and Convention Bureaus; one representative of Washington's tourism industry; one representative of the restaurant, hotel and airline industry; and an at-large member who will serve as the Board's chairperson. The term of all Board members will be four years, except the chairperson, who shall serve at the pleasure of the Governor. The Board will evaluate and award financial assistance to motion picture projects based on the criteria adopted by the DCTED.

The funding provided to Approved Motion Picture Competitiveness Programs must be used for health insurance, payments into a retirement plan, and other costs associated with film production. The funding may also be used for a person to market the tax credit for contributions to an Approved Motion Picture Competitiveness Program as well as staff and related expenses necessary for the program's administration. The maximum funding assistance from an Approved Motion Competitiveness Program is limited to: 20 percent of total actual investment in the state of at least \$500,000 for a single feature film produced in Washington; 20 percent of total actual investment in the state of at least \$300,000 per television episode produced in Washington; or 20 percent of total actual investment in the state of at least \$250,000 for an infomercial or television commercial associated with a national or regional advertisement campaign produced in Washington.

A credit against the state's B&O tax is allowed for contributions made to a Washington Motion Picture Competitiveness Program. An application must be made to the DOR and approved in order to receive the credit. The maximum credit is limited to the amount approved by the DOR, up to \$1 million. A statewide cap of \$5 million per fiscal year is

imposed and the credits are available on a first-come basis. A person may carry over the amount of the tax credit not taken in a calendar year. The tax credit is available beginning this calendar year; however, no applications will be accepted prior to June 30, 2006 and no credits approved prior to August 15, 2006.

If by July 1, 2009, any Approved Motion Picture Competitiveness Program has funds greater than \$1,500,000, the uncommitted excess shall be transferred into the State General Fund.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.

**Testimony For:** The motion picture industry is a labor intensive industry that has minimal and temporary impacts on the communities in which it films. Despite the many movies and television shows filmed here in the past, Washington has become "flyover country" for motion picture production and post-production in recent years. This is due to the favorable incentives in the surrounding jurisdictions, including British Columbia and Oregon. This bill provides incentives for motion picture production and post-production to return to this beautiful state. However, in order to qualify for the incentives, the companies have to spend the money in Washington first. This provides accountability. The jobs created by the motion picture industry provide benefits, including health insurance and retirement; thus making this a job creation bill.

**Testimony Against:** None.

**Persons Testifying:** Cecil Cheeka; Jim Tobin, Jim Hedrick, and Donna James, Washington Entertainment Industry Players Association; Doug Dumas, Northwest Location Professionals; David Robinson, International Alliance of Theatrical Stage Employees (IATSE) Local 488; Jeff Johnson, Washington State Labor Council AFL-CIO; Melissa Purcell; and Robert Mair, Studio Trucks, LLC.

**Persons Signed In To Testify But Not Testifying:** None.

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## HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives McIntire, Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Condotta, Conway, Ericks, Hasegawa, Santos and Shabro.

**Minority Report:** Do not pass. Signed by 1 member: Representative Hunter, Vice Chair.

**Staff:** Mark Matteson (786-7145).

## **Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Economic Development, Agriculture & Trade:**

Restructures the business and occupation (B&O) tax credit. Eliminates the application and requires that the contribution be made before claiming credit. Requires the person to keep records to verify eligibility. Modifies the basis for the credit from calendar year activity to fiscal year activity. Limits the credit to 90 percent of the contribution made.

**Appropriation:** None.

**Fiscal Note:** Available on original bill.

**Effective Date of Substitute Bill:** The bill takes effect 90 days after adjournment of session in which bill is passed.

**Testimony For:** This industry does have the effect of bringing a lot of value added to the state.

Washington Entertainment Industry Players Association was asked to look at how the Washington film industry business environment compares with other states. In particular, we examined tax incentives in other states. About 36 states have passed major tax incentives, with up to about 25 percent in taxpayer savings. In states in the Northwest, Oregon most recently passed a law that provides a corporate income tax credit equal to 90 percent of the contribution to the state film office. In this proposal, the credit is one-for-one with respect to the contributions.

Just recently, our largest film production company, North by Northwest, has been asked to sit on an Idaho task force which is charged with making recommendations including tax incentives.

Last year, the Legislature passed the Main Street program which for the first time allowed a tax credit for a private contribution for a public purpose. This bill has numerous safeguards. We give a preponderance of consideration to family wage jobs with benefits. There are also clawback provisions if moneys are unspent three years later.

The last big motion picture in this state was "Rose Red" in 2002. The production company came from California and spent \$18 million. Of that, \$10 million was spent on salaries for local workers, \$1 million on construction, \$800,000 on hotels, and \$2 million to rent facilities. We haven't seen much activity since then, because big productions are being filmed in Canada and elsewhere. It isn't just Vancouver, but other states as well. In several states, incentives programs have been put in place and production investment has accelerated. If our incentive program attracts just two productions to this state, we will see over \$20 million in local salaries and benefits, \$2 million in construction activity, and over \$1.6 million in hotel rooms. It's a real winner.

It is surprising that it has been suggested that gross revenues in this industry have increased recently. It may have to do more with television broadcasting activity. This proposal is a prime example of a successful joint business-labor effort. There are misconceptions about the

industry. Most movies can be shot anywhere. For example, "Frasier" and "Gray's Anatomy," whose plot lines are based in Seattle, are actually shot elsewhere; "Northern Exposure," which was based in Alaska, was filmed here. A second misconception is that out of state film crews come here and take the money and run. We have a lot of workforce here that relies on this industry. These are not hypothetical jobs. This industry can ramp up very quickly if we can give it a bit of help.

**Testimony Against:** None.

**Persons Testifying:** Representative McIntire, prime sponsor; Jim Hedrick and Don Jensen, WEIPA; and David Robinson, IATSE Local 488.

**Persons Signed In To Testify But Not Testifying:** None.